



THE COMMONWEALTH OF MASSACHUSETTS
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SENT ELECTRONICALLY, BY FAX AND MAIL

December 19, 2002

Mary Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

RE: Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company and NSTAR Gas Company, D.T.E. 02-78

Dear Secretary Cottrell:

On December 17, 2002, the Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company and NSTAR Gas Company ("NSTAR" or "Company") filed a response with the Department of Telecommunications and Energy ("Department") to the comments of the Attorney General. The Attorney General continues to oppose the Company's requested accounting treatment and implicit change in Department ratemaking policy related to pensions and post-retirement benefits other than pensions ("PBOP").

NSTAR still has not demonstrated with any evidence that "detrimental financial consequences that may harm customers" will actually occur. To the contrary, recent reports from financial analysts that are attached to this letter discuss the pension and PBOP matter, yet still maintain the Company's strong credit rating. The FitchRatings Special Report on Pensions cited by NSTAR and the resulting NSTAR credit ratings indicate that this accounting adjustment will not cause detrimental financial consequences.¹ FitchRatings, while specifically recognizing

¹ The FitchRatings Special Report states on page 2:

Underfunded pension obligations, as any other real claim on cash flow, are incorporated into Fitch's debt ratings. However, it is important to note that underfunded pension positions are a long-term consideration. Pension contributions do not have an immediate
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the Companies' pension positions, currently rates Boston Edison Company debt AA- (double "A" minus) with stable outlooks and no credit watch indications. Standard and Poors and Moody's similarly give the Companies "A" ratings with stable outlooks and no credit watch warnings. ValueLine Investment Survey still gives NSTAR stock its highest "A" rating with a stable outlook for price, and FirstCall/Thompson's Financial rates NSTAR stock a "hold." The ratings agencies clearly think that the effects of the "Alternative Minimum Liability" on the financial stability of the NSTAR utility companies will not be significant. In addition, in 2001, NSTAR booked a non-cash write-off – similar to the write-off that will be required for the pension and PBOP losses – of \$170 million for its investment in RCN, yet the Company's bond rating remained unchanged. NSTAR's claims of detrimental financial consequences that may harm customers are nothing but unsupported speculation.

Nor has NSTAR supported its claim (in footnote one) that delay to allow discovery and a hearing "is tantamount to a denial since the accounting entries must be made as of December 31, 2002." Companies frequently delay issuing financial statements for months at a time, and NSTAR could do so here.

The Company suggests that it does not seek a change in Department precedent in its November 27, 2002 request, but merely seeks a method for "the calculation of pension costs for ratemaking purposes" that departs from the "Department's historical practice of including cash contributions in rates." Company's response, p. 6. Deferrals are supposed to be approved by auditors only where there is a probability of recovery in rates. It is, therefore, misleading for NSTAR to suggest that these deferrals would have no implicit ratemaking consequences. A switch from cash to accrual accounting, coupled with a deferral and guaranteed cost recovery in a future rate case, would in fact change Department precedent and put upward pressure on rates.

The Company claims that it does not seek deferral for an "extraordinary pretest year expense" and, therefore, the case of *North Attleboro Gas Company*, D.P.U. 93-229 (1993), does not apply. Company's response, p. 3. If the Company intends to file rate cases for all four distribution companies in 2003, then there should be no reason for the deferral, since the pension and PBOP issues will be addressed by using the 2002 test year under established Department precedent. If any of the distribution companies do not file rate cases in 2003, then pension and PBOP cost recovery will be deferred until those distribution companies file rate cases. In other words, the Company then would be seeking recovery of a normal pre-test year expense, a practice long prohibited by the Department. *Nantucket Electric Company*, D.P.U. 91-106 / 91-138, pp. 20-22, 26-28 (1991). Furthermore, the Company does not address the issue raised by the Attorney General of the impact of the deferral and cost recovery request on NSTAR's four year "rate freeze." *BEC Energy / ComEnergy*, D.T.E. 99-19, pp. 5, 25, 85 (1999). The Company's proposal violates the rate freeze provisions.

¹(...continued)

effect on liquidity, but even substantially underfunded positions generally have years before the accounting gap and the funding gap converge.

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Without citation or reference to any precedent, the Company continues to seek recovery from customers for the Company's stock market losses. The Department should deny this request.

Sincerely,

Joseph W. Rogers
Division Chief
Utilities Division

cc: Service list